Bonneville Power Administration

BPA rates staff and utility customers reach
preliminary settlement on power rates

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(See attached table for rate impacts of various market scenarios)

PORTLAND, Ore. – The Bonneville Power Administration's rates staff has reached a partial settlement with many of its utility customers over wholesale power rates for the five-year period beginning Oct.1, 2001. The agreement, part of a new BPA rate proposal published today, provides for innovative variable adjustments to rates. These adjustments would be tied to actual loads (demand for power) placed on BPA and the prices BPA pays for power in the wholesale power market. A final decision by the BPA administrator on wholesale power rates will be made at the completion of the rate case in June.

The proposal comes after several months of discussion during which it became clear that BPA rate increases could average 60 percent or more over the five-year period. BPA's Senior Vice President for Power, Paul Norman, praised customers for the breakthrough.

"We are extremely grateful to our customers for their exceptionally constructive response to the rates issue," Norman said. "Based on their suggestion, we are proposing a major change in direction."

Originally, BPA had proposed developing a fixed rate for each year of the five-year rate period. Instead, the settlement specifies a formula that will determine and adjust rates every six months depending on BPA's actual customer demand for power and the actual amount and price of the existing power supply. BPA's utility customers proposed the flexible structure and worked with the agency on the details.

"We had been on a course for fixed rates but, given the volatility of the market, that strategy just wasn't going to work," Norman explained. "While a flexible rate that can change every six months does not fully meet the stability goal we had hoped for, it does meet our fundamental goal that we collect adequate revenues to cover our costs but no more revenues than we actually need. This proposal effectively addresses the turbulent market we are operating in."

Two substantial developments during the last few months have been driving BPA's rates upward. First, the amount of load that customers put on BPA exceeded expectations. The second development is the unprecedented rise in prices in the wholesale power market. To augment its existing resources, BPA must purchase power in this extremely volatile market.

The analysis on the variable adjustments *(see accompanying table)* shows a wide range of potential rate impacts, from a 2.4 percent increase to add 500 megawatts in a $30 per megawatt-hour market, to a 453 percent increase to acquire 3,000 megawatts in a $325 megawatt-hour market. Actual rates would likely lie between, depending on market conditions, customer actions, consumer energy conservation and BPA management actions. "Our task now," according to Norman, "is to achieve a regional agreement on how we are going to reduce the amount of power we have to buy and the price we have to pay. That will help us get the rate increase down to a level that will minimize the negative impact on the Northwest economy while protecting the environment."

BPA sets rates at a level to provide a very high probability of covering all of its costs, including all obligations to creditors. The largest creditor is the U.S. Treasury. The annual payment to the Treasury includes principal and interest on investments the federal government has made in the hydropower and transmission systems. "We are committed to making our Treasury payments on time and in full because we believe this is the best way to preserve the assets of the Columbia River for the Northwest," Norman said.

Under the new risk mitigation tools, cost recovery adjustment clauses will trigger under certain conditions to allow adjustments to the rates. The proposal also includes a dividend distribution clause to return money to customers in the event BPA overcollects. Any savings accrued through energy conservation and load reductions also will be calculated into the rate adjustment formulas.

Norman also pointed out that the rates are designed to provide the funds needed for BPA's fish and wildlife obligations, and such funding would come first before any dividend would be returned to ratepayers. "We intend to meet our fish and wildlife obligations," he said.

Retail consumers are not expected to see percentage increases as high as the wholesale increases because retail electricity bills include other costs besides those for wholesale power. Individual impacts also will vary depending on how much power a utility buys from BPA.

The proposed agreement addresses many substantial issues but does not settle all of them, nor has it been signed by all the parties to the rate case. The Supplemental Proposal was filed this week for scrutiny by rate case parties. BPA expects to complete the rate case and to issue a Record of Decision for the final rates by June 20. Rates will be submitted to the Federal Energy Regulatory Commission by July 1 to ensure adequate review time before rates go into effect on October 1. FERC conducts a review of BPA’s rates to ensure the proposed rates cover BPA’s costs, including the ability to make Treasury payments on time and in full.

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PRELIMINARY

BPA ASSESSMENT OF JOINT CUSTOMER PROPOSAL

LB-CRAC Percentages

Augmentation Amount Over the 794 aMW Purchased at ~ 28.1

Market $	3000	2500	2000	1500
30	9.3%	7.7%	5.9%	3.8%

	50	39.3%		34.2%		28.4%		21.8%		
	75	76.9%		67.4%		56.6%		44.4%		
	125	152.0%		133.7%		113.0%		89.5%		
	225	302.3%		266.3%		225.8%		179.8%		
	325	452.6%		399.0%		338.6%		270.1%		

Assumes Additional Average Cost to Buy-Down Load of: ($/MWh)

Table illustrates possible outcomes of joint customer proposal.

Joint customer proposal would tie rates to actual BPA augmentation costs.

Trued-up to actuals twice a year.

Dividend distribution clause refunds excess revenues to customers.